

Robert Schuman Centre

Global Competition and EU Environmental Policy

Competitiveness, Environmental Sustainability  
and the Future of European Community  
Development Cooperation

NICK ROBINS

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European Community Development Cooperation*

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**ROBERT SCHUMAN CENTRE**

**Global Competition and EU Environmental Policy**  
**Competitiveness, Environmental Sustainability**  
**and the Future of**  
**European Community Development Cooperation**

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This paper explores how Europe's drive for international competitiveness is transforming efforts to improve the environmental performance of European development cooperation programmes. It starts by reviewing the three strategic driving forces for European aid flows to developing countries -- national security, economic advantage and the moral imperative of development -- within which environmental sustainability has traditionally had a low priority. The paper then traces the efforts of the European Union to green its aid programme in recent years, before turning to the current crisis facing aid and the competing priorities that could shape its future. Competitiveness is one of these priorities, and the paper describes three ways in which competitiveness can impact upon the environmental quality of aid programmes. The paper closes with a set of five conclusions for coping with the EU's triple challenge of competitiveness, environmental sustainability and development cooperation.

## **Aid, Foreign Policy and Sustainable Development**

At the June 1992 United Nations Conference for Environment and Development (UNCED -- popularly known as the Earth Summit) held in Rio de Janeiro, the governments of the world gave development assistance a central role in implementing the Agenda 21 action plan for sustainable development in the South. Indeed, the UNCED secretariat estimated that approximately a quarter of the annual \$600 billion -- or \$125 billion -- in the form of concessional financial flows from the North would be needed to turn the words of Rio into action in the developing world. At Rio itself, the European Union (EU) pledged \$4 billion for the early implementation of Agenda 21 in developing countries. And although demands from the Group of 77 coalition of developing countries for a substantial "Green Fund" were denied by the industrialised world, the Global Environmental Facility, run jointly by the World Bank, the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) was designated as the mechanism for additional funding of climate change, biodiversity, protection of international waters and ozone layer issues to the tune of \$1.2 billion, subsequently replenished to \$2 billion for 1994-97.

But even as hugely ambitious goals for increased development aid were being made, the political and economic foundations on which they rested were shifting. Recession hit public expenditure in the North, and aid was a soft target for spending cuts. Economic insecurity also weakened popular commitment for financing "distant obligations", anyway undermined by a spate of aid finance scandals. With the end of the Cold War and the acceleration of globalisation, a new set of common interests are required to underpin continuing flows of public finance from North to South (ECDPM 1996).



Traditionally, there have been three foreign policy driving forces for aid. The first relates to the promotion of national security, where aid is used as an instrument of foreign policy to project a country's values and defend its interests. It is not by accident that most of Europe's aid agencies are subject to control by their foreign ministries.<sup>2</sup> According to the UN Development Programme, "so far, the basic motivation for donors to give aid has been to win friends in the Cold War confrontation between socialism and capitalism" (UNDP 1993). The most recent example of this Machiavellian motivation for aid was provided in the aftermath of the Mururoa nuclear testing controversy in 1996, when France boosted financial assistance to the South Pacific to restore political credibility.

Strongly linked to the promotion of national security has been the use of aid to enhance a country's commercial advantage and competitiveness. Over a quarter of all aid is formally tied to the purchases in the donor country. For some EU Member States the proportion is much higher, ranging from between 35 and 40% for France and Germany to two-thirds of total ODA for the UK and reaching 80% for Spain. Donors also engage in "informal tying", so that, for example, Denmark sets itself the goal of a 50% rate of return to Danish business from bilateral aid spending (ACTIONAID 1995).

The third driving force for aid is the moral imperative of "development", a constantly evolving policy objective, bringing together the goals of poverty relief, human rights, population control and more recently, environmental sustainability. While development is the stated objective of all aid programmes, the fact that there is still no common foundation for assessing the impact of aid programmes on the relief of poverty or the conservation of natural resources shows that these goals remain somewhat marginal to real aid decision-making: in business language, "what gets measured gets done" and the qualitative aspects of aid are still not adequately being measured (see ACTIONAID 1996).

There is an environmental dimension to each of these three driving forces. Increasingly, environmental security is being highlighted as one of the core themes for post-Cold War foreign policy. Similarly, the promotion of exports of clean technologies is an important sector within the wider competitiveness agenda, while environmental action is regarded as essential for the long-term relief of poverty in the South. However, in all three, environmental sustainability is only one goal among many, and in terms of the specific links between the competitiveness and sustainability agendas, the key question is whether in an

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<sup>2</sup> The European Community is a notable exception, having had an aid programme since its inception in the 1950s, but only developing a formal foreign policy capacity in the 1990s with the Maastricht Treaty.



increasingly competitive and environmentally degraded global economy the pursuit of Europe's commercial advantage will further erode ties of solidarity between rich and poor and inevitably lead to the undermining of the interests of future generations?

Before this question can be answered, however, it is necessary to examine the mixed results of the EC's attempts to green its aid programme over the past decade.

## **The Greening of European Community Aid**

### *Integrating the Environment into EC Development Cooperation*

Over the past two decades, the European Community's development cooperation policies and programmes have evolved in a somewhat ad hoc fashion to become the world's fifth largest, after Japan, the USA, France and Germany, spending \$4.8 billion in 1994; taken together with the Member States, the EU provides 45% of total aid from the OECD. In the process, the EC has accounted for a rising proportion of Member State aid funds, from just 6.7% in 1970 to 17.4% in 1994; this is likely to rise further in the future (OECD 1996a). For historical reasons, the EC's aid programme is somewhat artificially divided between the 70 African, Caribbean and Pacific (ACP) countries which have signed the Lomé Convention - managed by the Development Directorate (DGVIII) -- and relations with Asian, Latin American, Mediterranean, and now the Central and Eastern European Countries and Newly Independent States -- managed by the External Affairs Directorate (DGI) -- through a series of regional strategies and bilateral trade and cooperation agreements. Funding for these agreements comes directly from the EC budget, along with a series of supplementary funds available for all countries and covering food aid, emergency aid, democracy and human rights, co-financing for NGOs, research and development, AIDS, as well as environment and tropical forests. Over the years, the importance of aid through the Lomé mechanism has declined in importance compared to other regions, which is likely to accelerate after 2000, as the importance of Eastern Europe, the Mediterranean and Asia grows (see Tables 8.1 and 8.2).

Table 8.1

## European Community Aid By Region: 1990-1994

	1985- 1989	1990- 1994	OECD Average (1993)
Sub-Saharan Africa	64%	55.7%	33%
South and East Asia	14%	10.1%	31%
Oceania	3.2%	1.8%	--
North Africa and Middle East	7.2%	14.2%	--
America	9.2%	11.4%	12%
Europe	2.3%	7.05%	--

Table 8.2 European Community Aid By Region: 1995-2000

	Billion ECUs
Africa, Caribbean and Pacific	14.6
Asia and Latin America	4 (estimate)
Mediterranean	5.26
Central and Eastern Europe	6.7
Former Soviet Union	2.7

The importance of the environmental dimension of Community development cooperation has grown in line with the growing financial significance of EC aid (Agrasot 1995, Robins 1996a). In part, this has been a response to concern over poor environmental performance. A recent survey by the European Environmental Bureau, for example, found that "for a good number of NGOs in the South, European cooperation appears like a 'secret monster' which manifests itself by 'money munching' projects far away from the concerns of beneficiaries" (EEB 1993). The Court of Auditors has sometimes criticised individual projects, for example, the lack of environmental appraisal for a significant road building scheme in Cameroon (CoA 1992). Parliamentarians along with a number of environment and development organisations have also highlighted environmental and social shortcomings of controversial initiatives such as the Carajas steel programme in Brazil, the Kibale forest scheme in Uganda and the Risonpalm palm oil plantation project in Nigeria (Hayter 1988, Worthington 1993, WDM 1994, CLO 1994).



Prompted by these concerns and its own internal process of policy evolution, there has been a gradual upgrading of the EC's environmental policy goals, reflected in successive Environmental Action Plans and Development Council Resolutions. Since 1987, the Commission has aimed to make "an environmental reflex" a natural part of mainstream aid administration, although an independent report two years later found that some staff still viewed the environment as "just another burden on top of an already heavy work load" (CEC 1987, Wenning 1989). At the height of the wave of environmental concern in the late 1980s and early 1990s, the Development Council passed more resolutions on the environment than on any other issue, deciding in 1990 that environmental protection was one of the "priorities of development assistance," coinciding with the heightened importance given to international environmental action at the June 1990 Dublin Summit.

### *The Lomé Convention and the Environment*

The EC's Lomé Convention framework for 70 African, Caribbean and Pacific (ACP) countries remains the central pillar of Community development cooperation. Managed outside of the normal EC budgetary framework, Lomé provides a package of trade preferences and development assistance through successive European Development Funds and loan agreements with the European Investment Bank. The fourth Lomé Convention signed in December 1989 allocated ECU 12 billion for 1990-1995, of which the Commission estimates that approximately 10% will be allocated to projects with a primary environmental objective. After much haggling, funding of ECU 14.635 billion was agreed for 1995-2000 at the Cannes European Summit in June 1995. About 65% will be allocated to development projects on a country by country basis.

The agreement of the fourth Lomé Convention in 1989 marked a step change in approach towards environment and sustainable development. Following the Brundtland Report and the inclusion of environmental provisions of the Single European Act, the new Convention incorporated an overall commitment to a "sustainable balance between economic objectives, rational management of the environment and the enhancement of human and natural resources" along with a series of specific environmental provisions laying out the principles and procedures for integrating the environment into Lomé aid activities.

The post-Rio emphasis on raising the environmental quality of aid has coincided with the imperative of improving the overall effectiveness of Lomé funded assistance. Thus, in 1993 a new Project Cycle Management (PCM) approach was introduced as a way of bringing greater rigour to aid



administration, for example, by ensuring that projects are really targeted at the needs of intended beneficiaries and that all the factors for the sustainability of a project (including the environment) are taken into account. Based on the PCM, annual monitoring forms have to be completed for each project, including information on environmental sustainability. Using the PCM approach, the Commission issued an Environment Manual also in 1993 to guide decision-makers in the Commission and ACP partner countries on how to integrate environmental factors at each stage of the project cycle from conception to final evaluation (CEC 1996a, CEC 1996b).

Efforts have also been taken to ensure that environmental considerations are taken on board at a more strategic level during the preparation of the five year national indicative programmes which lay out the priorities for each ACP country. According to the Commission's review of the Fifth Environmental Action Programme, analysis of the national and regional indicative programmes for 1990-1995 which account for the bulk of Lomé aid financing shows that the goal of environmental integration was only partially achieved (CEC 1994b). Only a few included sustainable development as a cross-sectoral issue at the strategic level, although almost all rural development programme incorporated environmental factors. (CEC 1996a). To tackle this, 40 Environmental Synopses of ACP countries have been prepared and circulated to assist in country-level planning, and Environmental Guidelines were prepared to guide the programming for 1995-2000. These incorporate the lessons of Rio for aid management, stressing the importance of both integrating the environment into the design and implementation of all Community activities, and integrating social and economic factors at initiatives aimed specifically at environmental protection. The Guidelines set the core goal of strengthening the in-country ACP human, technological, and institutional environmental capacities in the public, private and civil sectors (NGOs).

### *Asia and Latin America*

The Community has taken the same twin-track approach to improving the environmental performance of its cooperation with Asian, Latin American and Mediterranean countries: increasing the proportion of resources targeted at meeting environmental needs and improving the procedures for environmental assessment. At least 10% of technical and financial assistance resources for Asia and Latin America between 1992 and 1996 will be aimed at projects and programmes with a primary environmental objective. Internal procedures for environmental impact assessment (EIA) were established in November 1991, and then amplified in the guide for project management in July 1993. All projects over ECU 1 million are now routinely screened for environmental implications;



full EIAs are then carried out for those projects that pose potential problems, amounting to some 16% of the total in 1994. Projects without proper environmental screening are now refused financing, and then have to be resubmitted for approval once they integrate the recommendations of the EIA as environmental management plans. In general, the Commission believes that there is a clear trend towards projects with positive environmental impacts or projects which have had preliminary EIA in the preparation phase (CEC 1996a, CEC 1996b).

In some senses, the process of mainstreaming the environment into EC development activities appears to have gone further and faster in the case of Asia and Latin America. For example, the Commission's review of the Fifth Environmental Action programme argues that "the process of monitoring EIAs for aid to Asia and Latin America needs to be made universal for all the Community's aid, so that it is easy to demonstrate that EIAs have a real impact on the scope and content of projects" (CEC 1996a). One reason for this could lie in the greater involvement of the EC's Environment Directorate in the non-ACP cooperation agreements. Thus, as part of European cooperation with ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), a specialised forest and environment working group has been established to develop a joint response to the problems of the loss of tropical forests in the region.

The mounting importance of China and India in global environmental negotiations, particularly for climate change due to their ambitious coal-fuelled growth plans, has meant that the environment has become an important strand of overall EC relations. In China, environmental cooperation was one of the four priority areas identified by the Council of Ministers in a December 1995 resolution on China-Europe relations, following Commission proposals for a long-term strategy (CEC 1995). A joint environmental working group has been set up by the Commission's Environmental Directorate (DGXI) with its Chinese counterparts, which has carried out a fact finding mission to draw up priorities for future cooperation, focusing on integrated environmental management in the industrial sector. Sub-Saharan Africa, by contrast, has far less significance for EC international environmental policy, with the exception of tropical forest management issues in Central Africa and to a lesser extent, widespread soil degradation and desertification. Somewhat surprisingly given the long-established nature of the Lomé framework and its commitment since 1989 to sustainable development, there is no regular forum for information exchange and priority setting on environmental issues: the last major initiative appears to have been the Euro-African Environment and Development ministerial conference held in 1988.



## Development Cooperation and International Environmental Agreements

In the run-up to Rio and beyond, EU donor agencies have been exploring ways of supplementing the traditional approach of integrating the environment into their development programmes, with more targeted "environmental assistance". Thus, as part of the restructuring of the Global Environmental Facility, France has established its own Fonds Francais pour l'Environnement Mondial (FFEM), with an allocation of an additional Ffr440 million for 1993-1997. The FFEM works in the same four priority areas as the GEF -- biodiversity, climate, international waters and ozone depletion -- and aims to catalyse existing French aid to do more on these issues. The FFEM supplements mainstream French aid for the environment, which has another three priorities, primarily for Africa -- maintaining marine fisheries; conserving tropical forests; and supporting natural parks -- which sit alongside a number of smaller scale programmes for environmental policy support, freshwater, the urban environment, renewable energy, desertification and cooperation with NGOs, which together amounted to Ffr230 million in 1994 (RF 1995).

In Denmark, a Danish Fund for Environment and Development (DANCED) was established after Rio to help tackle global environmental problems and implement the UNCED agreements (DANIDA 1994). This follows Denmark's decision to allocate an extra 0.5% of national income by 2002 for environmental action and disaster relief. DANCED focuses on seven key themes - urban areas, sustainable energy, agriculture, water resources, forests, biological diversity and coastal zones -- in countries not eligible for environmental support under normal Danish development assistance. In all, developing countries will receive 25% of the fund, a further 25% for Central and Eastern Europe and the remaining half for the Arctic region. Initial efforts have been concentrated in South-East Asia, in particular Malaysia and Thailand and Southern Africa. Importantly, DANCED is managed by the Ministry of Environment and Energy in close cooperation with the DANIDA development agency. Funding in 1995 totalled Dkr295 million, rising to Dkr 500 million in 1997 (DANCED 1996).

A set of three "Sustainable Development Agreements" signed by the Netherlands in 1994 with Benin, Bhutan and Costa Rica are perhaps the most innovative response to UNCED. The 10-year agreements are based on the principles of reciprocity, equality and participation, and in a departure from traditional development relations, the agreements focus on the changes needed in the North, as well as ways in which aid can support progress towards sustainability in the South. The agreements are managed by independent foundations in each country, with a total budget of Dfl30 million in 1995 (Ecooperation 1996). These deliberately experimental agreements parallel more



traditional Dutch support for environmental improvement in the South, accounting for Dfl335 in 1995, just under a quarter of total aid flows (T&B Consult 1996).

By contrast, neither Britain or Germany have established new funding mechanisms for implementing the UNCED agreements. In the UK, special attention has focused on five priority areas -- forestry, biodiversity, population, sustainable agriculture and energy efficiency -- with a special emphasis given to cross-cutting themes of participation in the aid process (Chalker 1994). Germany has no special funding earmarked for environmental cooperation with developing countries, although approximately a quarter of its financial and technical assistance is spent in the field of environment and natural resources.

At the EC level, resources for environmental protection have also been rising as a proportion of overall spending to about 10% of the total; in 1994, the Commission estimates that over ECU 1 billion of Community funds were spent outside the EU on environmental projects (see Table 8.3). Within this, tropical forests are the central environmental issue for the Community's external environmental assistance efforts, bringing together the commitments under Agenda 21, the Rio Declaration and Forest Statement, along with the Climate, Biodiversity and Desertification Conventions. In the past five years, three interlinked initiatives have been taken to push ahead with tropical forest conservation by the Community.

Table 8.3 European Aid Spending on Environment 1994

	Million ECU
Africa, Caribbean and Pacific	536
Mediterranean	26
Asia	105
Latin America	28 (estimate)
Ecology and Forest Budget Lines	70
Central and Eastern Europe (CEECs)	75
New Independent States (NIS)	12
Nuclear Safety (CEECs/NIS)	116
Research and Development	45 (estimate)
LIFE Fund - Baltic and Mediterranean	5
<b>TOTAL</b>	<b>1018</b>



A new Tropical Forest Regulation was adopted in December 1995, guaranteeing ECU50 million a year up to 2000. Key themes for funding will include the conservation of primary tropical forests, sustainable management of production forests, the definition and development of forest certification systems and support for indigenous peoples. A Tropical Forest Protocol was added to the Lomé Convention in November 1995, concentrating on boosting the timber trade from sustainably managed forests, supported by EDF finances. Special incentive arrangements have been established under the new General System of Preferences trade regime for non-Lomé states to reward those developing countries that adopt and apply sustainable forest management practices.

### *Assisting Sustainable Development?*

For the past decade, the Commission along with other European development agencies has been struggling to implement a "first generation" set of environmental reforms to its aid programmes. This has involved integrating the environment into mainstream Community funding through changes to project management and procedures change, a theme underscored by the Fifth Environmental Action Programme (CEC 1993a), and investing a growing proportion of overall aid into particular environmental priority areas, notably desertification and deforestation. Here, some possible success stories are now emerging from Community funding, such as the PFIE (Programme Formation et Information sur Environnement) environmental education programme for schoolchildren in the Sahel and the ECOFAC regional network of forest conservation and protected areas in Central Africa.

However, progress with this "first generation" agenda has been held back by three major constraints: a lack of public accountability; insufficient environmental capacity and weak coordination with the aid programmes of Member States. Although the Court of Auditors screens the financial efficiency of European spending programmes, there is still no public accountability for the environmental performance of EC aid spending. The Commission has so far ignored the European Parliament's request for an annual report on how the environmental provisions of the Lomé Convention have been implemented (ACP-EC 1994, Ewing 1996). The European Union thus lags behind the World Bank, which has now published five annual environmental reports; equally, the EC has yet to face an equivalent to the sustained environmental critique over the past decade which has forced environmental issues up the Bank's agenda (Rich 1994). Public accountability provides an important feedback mechanism for improving the quality of public spending, and without it, the quality of aid is left up to the professionalism of aid officials. And here lies the second obstacle to the greening of European aid: the continuing lack of capacity among its staff to implement its



environmental policies. A recent OECD review of Community aid found that "the Commission continues to suffer from a lack of environmental specialists and is frequently not in a position to carry out the necessary environmental impact assessments of the development projects it supports" (OECD 1996b). Financial pressures to contain staff levels in the Commission mean that this capacity gap is unlikely to be filled in the near future.

The Commission's capacity problems are exacerbated by a continuing inability to define in clear terms the "value added" of European aid compared with that provided by the Member States: the EC is seen as a 16th donor, additional to the Member States bilateral programmes. The Treaty of European Union, which included for the first time a clear constitutional basis for aid, sought to rectify this by seeking to boost the effectiveness of European aid through better coordination with Member States and improved coherence with other policy areas, most notably the Common Agricultural Policy. Some progress has been made in drawing up common policy statements on poverty, gender and health and coordinating operational activities in six pilot developing countries. But the continuing desire among Member States to use aid to pursue national security interests abroad and promote national champions in export markets means that the scope of coordination will remain limited.

Much still needs to be done, and in its most recent environmental resolution in May 1996, EU Development Ministers called on the Commission to step up the "tempo and momentum of its efforts towards upgrading its EIA procedural and implementing capacities" and underlined the need for "the systematic application of EIA procedures before the formal adoption of all Community development projects." But even while this "first generation" agenda remains unfinished, a new "second generation" agenda is emerging, giving greater importance to competitiveness concerns in the shaping of the environmental dimension to European aid.

### *Competing Priorities for Development Assistance*

Development cooperation policy and practice is going through an uneasy period of reassessment as both North and South look hard at the fundamental reasons for aid. Ashok Khosla, director of Development Alternatives in India has estimated that over the past five decades more than a trillion dollars has been spent in aid, but states that "it is difficult to avoid the conclusion that this world-wide collaboration has been a failure. Many today would say it was an outright disaster" (Khosla 1995). For Khosla and others seeking to make a reality of sustainable development, the task is to make aid smaller, more decentralised and participatory, sensitive to issues of gender, social justice, environment and



culture. Central to this current battle of ideas and interests are the issues not just of the new balance to be struck between development, security and competitiveness objectives, but whether these goals can co-exist without undermining prospects for environmental sustainability.

The starting point for the rethink is the fall in overall aid flows, which have often been dramatic, as in the United States, where the Republican dominated Congress cut official development assistance by almost a fifth since 1992. But in the European Union as well, aid levels in most member states -- Belgium, Finland, Germany, Italy, the Netherlands, Spain, Sweden and the United Kingdom -- were lower in 1994 than in 1992. Spending by the European Community itself has risen slightly, largely because funding levels for the 1990s had been agreed at the December 1992 Edinburgh Summit. This general climate of financial stringency, combined with post-Maastricht manoeuvring over questions of sovereignty and the control of aid spelt doom for EU's \$4 billion UNCED aid pledge, with the European Commission admitting at the end of 1994 that the Union had failed to "reach an agreement on a common and coordinated framework for the implementation of the financial commitment made in Rio" (CEC 1994b). Overall, OECD aid flows to the South are now at their lowest levels for two decades, and they are unlikely to rise in the near future. Maastricht convergence criteria for a single currency mean that for the EU in particular that aid volumes will remain stagnant into the next decade. Thus, rather than marking a new North-South grand bargain on how to manage the Earth's limited carrying capacity in a wise, fair and prudent fashion, the Earth Summit was "the death knell of international welfarism" (Sandbrook 1995).

Over the past five years, a series of international summits -- Rio (environment), Cairo (population), Copenhagen (social justice), Beijing (gender), Istanbul (cities) and Rome (food) -- have attempted to reignite the development rationale for aid. The recent Caring for the Future report has also reasserted the moral basis for aid, stating that "in future, grant aid and conditional loans should be more consciously targeted towards sustainable improvements in the quality of life -- especially by those currently by not enjoying it, the poorest strata of the population in low income countries" (ICPQL 1996). From an environmental perspective, this focus on meeting needs has been also been rising in importance, largely thanks to the use by Friends of the Earth and others of the concept of "environmental space", which states that each person on the planet has a right to an equal share of the Earth's carrying capacity (Milieudefensie 1992, FOEE 1995). In its report on the implications of Rio for aid policy, the Dutch government's national development advisory council concluded that priority should henceforth be given to ensuring an equal share of this eco-space to the South and reorienting development programmes accordingly (NAR 1993).



The security aspects of foreign aid, having receded after their prominence during the years of the Cold War, are again asserting themselves. Louk Box, director of the European Centre for Development Cooperation Management thus argues that "security and no longer development will become the primary consideration of cooperation. The types of cooperation which promote 'common human security' between North and South will gain in importance" (Box 1995). As a trading bloc first and foremost, security questions for the European Union have traditionally focused on how to deal with Europe's often acute dependence on external sources of energy and raw materials. Born at the height of Third World commodity power in the 1970s, the extensive trade and aid provisions of the Lomé Convention no longer respond to Europe's strategic security interests, which have been replaced by concerns about the safety of its "near abroad" in Eastern Europe and the Mediterranean. Here, environmental factors are rising in importance as a possible new determinant for aid, with pre-emptive efforts to achieve long-term sustainable development being recommended as a way of defusing the security implications of environmental degradation and subsequent migrations: "export the wherewithal for sustainable development for communities at risk or import growing numbers of environmental refugees" (Myers 1995). But the environmental security argument is double-edged, with environmental degradation being used to justify enhanced military forces rather than better long-term aid (Robins 1996b).

But it is economic globalisation that is perhaps the strongest pressure for rethinking aid, so that it becomes more fully supportive of a donor's competitiveness. There is growing concern that this could "result in aid programmes reflecting domestic export interests over the sustainable development needs of recipient countries" (ACTIONAID 1995). At the EU level, few links were made by the landmark Delors White Paper on Growth, Competitiveness and Employment, between the promotion of Europe's commercial advantage and its relations with the South, particularly in terms of the implications for EU development cooperation (CEC 1993b). The global vision presented was of a Triad of dominant economic powers (EU, Japan and the USA), with the rising challenge of the Asian emerging economies and Eastern Europe alongside: the poor South, particularly Africa, was not picked up by the Commission's competitiveness 'radar'. This has two implications: first, it makes the relatively economically-unattractive ACP countries vulnerable to a potential switch in aid resources to Asia and Latin America, and second, it is likely to lead to a shift in aid resources away from poverty-focused development in favour of growth-oriented economic cooperation through trade, technology transfer and investment promotion. This was particularly marked in the EU's recent strategy for Asia, and was further reinforced at the April 1996 Asia-Europe Summit in Bangkok, attended by 12 EU premiers, when the focus of attention was on "a new



comprehensive Asia-Europe Partnership for Greater Growth,” stressing trade, investment and business links: cooperation for development and environment were relegated to a subsidiary place (CEC 1994a).

There are a range of links between this new competitiveness agenda and environmental sustainability. Although the term ‘competitiveness’ rarely appeared -- if at all -- in the UNCED agreements, the issue of how to resolve competing economic claims to the global environment was central to the often heated negotiations on tropical forests, intellectual property rights for biotechnology and the transfer of clean technologies. Since Rio, these issues have come out into the open, particularly in the area of changing consumption patterns and trade, where developing countries fear that efforts by the North to shift to more efficient and less polluting growth models will both reduce demand for their commodity exports and impose ‘green protectionist’ barriers to their manufactured goods. The EC along with a number of EU Member States are also explicitly seeking to search out ‘win-win’ solutions in the promotion of environmental technologies and techniques through a range of ‘second generation’ aid initiatives. The Commission, for example, now openly acknowledges the importance of “examining the role of cooperation in relation to clean and efficient technologies, which not only bring solutions to problems in developing countries but also provide European producers with investment opportunities” (CEC 1996b). Critically, the accent given to competitiveness concerns tends to focus environmental action at the clean-up or prevention of the ‘effluents of affluence’: in other words, greening the growth trajectories of rapidly expanding emerging economies. This could divert attention from the core concern of sustainable development agenda, which is the environmental needs of those living in poverty.

The next section explores whether this ambition for ‘win-win’ benefits is being realised in practice, and its implications for developing countries.

## **Competitiveness and Sustainable Development: Who Wins, Who Loses?**

### *Competitiveness and Development Assistance*

To an extent, the increased emphasis of commercial factors is nothing new. Rather, it is an intensification of the long-standing use of development assistance funds and other policy levers for the external support of the donor's own industries and economic interests. This takes place at two main levels. At the micro-level, competitiveness is promoted by European governments through the allocation of export credits, loans and the formal or informal tying of aid to the



purchase of national goods and services. Generally, the multilateral approach adopted by Community aid funds has been favoured by developing countries as they are much less tied to national purchases. But although the EC does not publish any equivalent targets, it states that "for every ECU 100 spent on aid, the Community recovers ECU 48 in the form of projects, supplies and technical assistance purchased from European companies" (CEC 1996c). In the specific case of the Lomé Convention, ACP companies won only 20% of contracts concluded under the 6th European Development Fund (EDF) and 17.6% under the 7th EDF, with the remainder going to European Union companies (CEC 1995c).

Tied aid has a poor reputation. The lack of competition can lead to the over-pricing of goods and services by about 15-30%. While individual firms certainly profit from such government subsidies, the evidence of benefit for either donor or recipient is often less clear. In the case of the UK's Aid and Trade Provision, a government evaluation found that "very few real economic benefits" were generated (ODA 1991). In the case of EC aid, research in the Philippines has criticised the lack of accountability and transparency of some Community programmes, and an over-reliance on European consultancies rather than local agencies (Santos 1995, Putzel 1996). Senior officials in both donor agencies and recipient states stress that five decades of misguided technical assistance have seriously harmed recipient countries (Jaycox 1993). In the EU context, some fierce criticisms are emerging, particularly of the technical assistance provisions contained in the Lomé Convention framework for relations with African, the Caribbean and Pacific (Bossuyt 1995). In an attempt to prevent the worst side-effects of aid tying, the OECD has agreed the Helsinki Principles, a 'gentleman's agreement' to establish a level playing field among donors. But in the rush to conclude contracts -- often in competition with other donor countries -- governments can skimp on basic economic, social and environmental assessments, leading to the 'Pergau Syndrome' (see below).

At the macro-level, European governments promote the competitiveness of their industries and economies through a variety of sectoral and structural policies that aim to give comprehensive advantages over developing country producers. The OECD has bemoaned the way in which development objectives are undercut by "inconsistent policies in trade, investment, environment, debt, arms sales, agriculture and other areas," concluding somewhat sadly that these inconsistencies are due to the fact that development is seen as "a separate and distinct field of secondary importance" (OECD 1996b). For the EU, the classic case of such policy incoherence is the agricultural sector, where domestic subsidies and export promotion have had severe repercussions on the economic prospects of developing countries, undermining the EU's own development



efforts (the CAP's environmental damage within the EU is discussed at length in WP RSC 98/7). As part of the new provisions of the Maastricht Treaty, the Community is obliged to take account of its development cooperation goals in other policy areas to ensure policy coherence. Following NGO reports of the damage done by the dumping of EC beef in West African markets, External Affairs Commissioner Marin was forced to admit that "European exports seriously hurt local production, the regional trade and livestock development projects financed by the EDF" (OECD 1996a). Indeed, the EU still appears to be spending more on subsidising exports than on aid to agriculture in sub-Saharan Africa, negating the aid it is providing (Woodward and Pryke 1995). According to a recent report from SOLAGRAL, this has led to "an unsustainable contradiction" testing the very credibility of the Union (SOLAGRAL 1996).

### **Competitiveness, Development and the Environment**

There appear to be three main ways in which the drive for competitiveness in development can impact upon efforts to achieve environmental sustainability.

#### *Where the Drive for Competitiveness Undermines the Environment*

There is a clear risk that the pursuit of commercial advantage by governments in their aid programmes could compromise other objectives, including environmental sustainability. The UN's Food and Agriculture Organisation has concluded, for example, that the provision of toxic pesticides as part of donor aid programmes has left Africa with a \$100 million bill for clearing up obsolete and dangerous stockpiles. An in-depth study by the US Office of Technology Assessment -- recently abolished by the Republican Congress -- into the growing emphasis on the transfer of environmental technologies using aid funding, warned that "export promotion goals could overshadow environmental and developmental goals unless adequate safeguards are in place" (OTA 1993). For example, "over-emphasis on export promotion could bias projects toward overly expensive infrastructure, with more sophisticated technology than needed to meet basic human needs" (OTA 1993). The OTA recommended that donors should put in place four main safeguards:

- Carry out environmental studies to identify real needs and not just commercial opportunities;
- Apply 'first generation' environmental assessment procedures to export promotion activities;



- Undertake independent evaluations of the environmental performance of technologies;
- Make provisions for the operation and maintenance costs of technology transfer.

In the case of the EC, environmental assessment considerations have been fully integrated in the European Community Investment Partners (ECIP) programme, which aims to create viable joint ventures between EU and Asian and Latin American companies. Since 1992, all of the more than 600 ECIP joint venture proposals have been screened for environmental impacts. This has resulted in full environmental assessments for 14% of the projects presented for financing. However, more generally, there appears to be considerable "hesitancy" in OECD governments to applying environmental measures to export promotion activities, with fears expressed that this may "excessively complicate the efforts of exporters...may discourage firms from exporting or delay their entry into the international market, resulting in lost sales" (OECD 1994). Most OECD export credit agencies are simply unable to comply with the Montreal Protocol trade restrictions on exports of technologies for producing or using ozone depleting substances due to lack of expertise.

Without stringent analysis and public accountability, public aid can be misused to support economically unviable and environmentally damaging projects. The scandal of the Pergau hydro-electric scheme in Malaysia, funded to the tune of 280 million by Britain's aid and export credit programmes, highlights the risks. Although the project was judged an abuse of aid funds by officials and its environmental impacts had not been adequately assessed, political and commercial imperatives linked to arms sales and the interests of British construction companies seeking to build the dam were overwhelming. However, in a landmark case, the UK government's decision to grant aid to the project was found to be unlawful and payments from the aid budget halted. As competitive pressures intensify, so the risks of a spread of the "Pergau Syndrome" will mount. The European Union will need to look closely at whether action is needed to ensure that Member State export promotion activities comply with the Maastricht Treaty's provisions on the environment, and so establish a level playing field for all.

### *Where Competitiveness and Environment Can Work Together*

Most industrialised countries are looking at ways of generating 'win-win' benefits for their own industry and developing country environments through aid-assisted transfer of clean technologies and environmental expertise. One of the



three objectives of French environmental assistance, for example, is to promote "le savoir faire francais en matiere d'environnement," for example, through support for satellite tracking technologies (RF 1995). The Danish DANCED fund also aims to "act as a catalyst for the commercial utilisation of the potential of Danish companies," as well as respond to local needs and priorities (DANCED 1996). DANCED will thus be used, for example, to apply Danish expertise in cleaner technology through the establishment of a Clean Technology Information Centre in Thailand, focusing on environmental auditing in small companies. The joint EC-Singapore Regional Institute for Environmental Technology (RIET), follows a similar model, have a twin goal to "promote effective environmental technology throughout Asia and to facilitate mutually beneficial economic cooperation" (RIET 1996). RIET sponsors environmental management training programmes and finances studies on environmental policy questions such as Thailand's eco-labelling needs. It also acts as a marketing vehicle for European environmental technology companies. Eventually, the aim is for RIET to be self-financing.

In these and other cases, it is still too early to assess the extent of mutual benefits gained by such programmes. But a degree of caution is required to ensure that export interests do not overwhelm local needs. There is rising concern in particular at the export of clean-up technologies rather than techniques to conserve resources and prevent pollution, "a culmination of a three-stage process of exporting toxic industrial development from North to South:

- first, economic 'development' is exported through free trade policies and financing by multilateral and bilateral agencies;
- second, environmental regulations to control the excesses of this development are introduced;
- finally, 'environmental' technology and services are exported to service these regulations (Karlner 1994).

A particular priority, therefore, is for environmental agencies to ensure that an emphasis is placed on clean technology in publicly funded environmental assistance programmes, rather than encouraging the export of potentially inappropriate end of pipe equipment.

#### *Where Aid Can Help the South's Environmental Competitiveness*

Increasingly stringent environmental standards and preferences in developed countries can act as competitive barriers to developing country producers. Much



can be done by environmental authorities not only to improve the transparency and accessibility of their activities, but also to respond to developing country advantages. For example, the Federal Environmental Agency in Germany is now developing criteria for awarding the Blue Angel eco-label to products made from rattan and jute in developing countries. Development agencies can also help to overcome these barriers by actively promoting the environmental upgrading of developing country exports. For example, the EC's Tropical Forest Regulation and the Lomé Tropical Timber Protocol both stress the importance of supporting timber certification schemes as a way of enabling producers of wood products from sustainably managed forests gain market share and premiums in Europe's environmentally conscious markets (Dieterle 1996). Other donors have been working to promote more environmentally sound cotton production projects. The Dutch Sustainable Development Agreement with Benin, for example, is examining the possibility of encouraging a switch to better environmental practice in return for the Netherlands agreeing to purchase a guaranteed amount at a guaranteed price. Swedecorp, the former commercial branch of the Swedish aid agency, has designed a programme to ensure that developing country cotton producers do not lose out as environmental preferences rise in Europe, which included funding an organic cotton pilot project in Uganda, finding a Swedish buyer for the output and providing consultancy support for certification and labelling (IIED 1995).

### **Conclusions: Can Cooperation and Competition be Reconciled?**

Five years after Rio, the context for assisting progress towards sustainable development in the South has changed markedly. Old touchstones inherited from colonial obligations and the geopolitical imperatives of the Cold War have now dissolved. A new rationale for aid is required, which can help to focus attention on the needs of developing countries, and establish how these can be supported by external financial assistance from the industrialised world in a spirit of mutual self-interest. At a European level, the Union is currently struggling to develop a stronger Common Foreign and Security Policy stance as part of the Intergovernmental Conference (IGC) to update the Maastricht Treaty. This offers an important opportunity for clarifying the balance between self-interest and cooperation in Europe's external strategy. In addition, the Union is also about to launch a major review of the Lomé Convention to prepare the ground for its replacement in 2000, and will soon have to start negotiations on the successor to the Delors II budget agreement, again providing critical openings for restating the purposes of aid.



What the European Union now needs is a serious public debate about the balance to be struck between security, competitiveness and development in its cooperation activities for the next century. Such a debate would also need to encompass how these competing pressures for aid enhance or degrade the environment, and how they offer greater access to natural resources for the world's poor. New thinking is just starting to emerge on the tensions and dilemmas faced in trying to reconcile these objectives. The EU as a whole needs to address these issues to avoid making potentially costly overlaps between Community and Member State aid programmes and ensure a 'level playing' field across the Union. Five themes have emerged from this paper which could be used as a starting point for such a wider reflection.

(i) Commercial interests have long been an important driving force behind development cooperation, and these are set to intensify under the new competitiveness banner. There is so far no direct evidence that the drive to enhance Europe's competitiveness has led to a reduction in European Union aid volumes, although in the general push to reduce public spending, development has been a 'soft' target for cuts. In terms of the regional balance of aid, competitiveness concerns do seem to be driving aid away from Africa, the Caribbean and the Pacific, in favour of South East Asia, Latin America, the Mediterranean and Central and Eastern Europe. Cooperation focused on promoting development is also giving way to economic cooperation focused around promoting trade and investment.

(ii) Environmental sustainability has achieved high political profile in European development policy over the past decade, and efforts have been made to integrate the environment and increase aid allocated to environmental projects. However, progress has been constrained by a lack of public accountability for the environmental performance of EC aid, insufficient skills and staff to implement the policy and weak coordination with the Member States. In the future, greater emphasis will be placed on seeking 'win-win' solutions that help to promote exports of European clean technologies and on linking environmental degradation to European security concerns. By contrast, at a time when the status of aid is at historically low levels, the case for aid to reduce poverty and promote long-term sustainable development needs restating.

(iii) Little policy thought has yet been given to this competitiveness, environment and development nexus. Three main linkages between competitiveness and environment can be observed in European development cooperation:



- there is the negative 'Pergau Syndrome', necessitating mandatory preventative environmental action for all development cooperation funding, but especially finance geared towards export promotion;
- there is the mutually beneficial potential of 'environmental assistance', requiring honesty between donors and recipients if local needs and export interests are to be balanced;
- there is the currently small-scale 'altruism' of donors boosting the environmental competitiveness of Southern producers.

(iv) Top priority still needs to be given to guaranteeing rigorous environmental appraisal and management for all aid projects, reinforced by public accountability for environmental performance through regular reporting. Given the growing capacity constraints within European development agencies, the role of environmental ministries, agencies and at the EC level, DGXI, should be reinforced in three main areas:

- first, strengthening the environmental dimension of regional and country aid strategies;
- second, to provide technology evaluation services for export promotion programmes;
- third, to manage specialised 'environmental assistance' funds, additional to existing aid funds and targeted at raising the environmental capacities of key export sectors in developing countries affected by new environmental regulations in the EU (e.g. eco-labelling, packaging) or changing consumer preferences.

(v) Action to coordinate EC and Member State environment and development cooperation activities in the spirit of Maastricht also needs to be bolstered, particularly to ensure that all export promotion activities are subject to environmental screening, and that environmental assistance measures do not breach state aids legislation. A more forceful European approach to financing the implementation of international environmental agreements in the South is required, particularly for climate change and desertification.

Taken together these measures could help to ensure that while aid will never be free of the drive for competitiveness at least it can be steered in such a way that environment and development goals are met.



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